Annual Report for the Year Ended December 31, 2010

Tivus, Inc.

(A Development Stage Enterprise)

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(A Development Stage Enteprise)
ANNUAL REPORT FOR THE YEAR ENDED DECEMBER 31, 2010

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and
Stockholders of Tivus, Inc.:

I have audited the balance sheets of Tivus, Inc. as of December 31, 2010 and 2009 and the related statement of operations, changes in stockholder's deficit, and cash flows for the years then ended and for the period July 22, 2008 (date of inception) through December 31, 2010. These financial statements are the responsibility of the Company's management. My responsibility is to express an opinion on these financial statements based on my audits.

I conducted my audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that I plan and perform the audits to obtain reasonable assurance about whether the financial statements were free of material misstatement. The Company was not required to have, nor was I engaged to perform, an audit of its internal control over financial reporting. My audit included consideration of internal control over financial reporting as a basis for designing audit procedures that were appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, I express no such opinion. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. I believe that my audit provide a reasonable basis for my opinion.

In my opinion, the financial statements, referred to above, present fairly, in all material respects, the financial position of Tivus, Inc. as of December 31, 2010 and 2009, and the results of its operations and its cash flows for the years then ended and for the period July 22, 2008 (date of inception) through December 31, 2010, in conformity with accounting principles generally accepted in the United States of America.

The accompanying financial statements have been prepared assuming the Company will continue as a going concern. As discussed in Note 2 to the financial statements, the Company has no revenues from operation, has not emerged from the development stage, has had recurring losses resulting in accumulated deficit, has incurred negative cash flows from operations, has negative working capital and is requiring traditional financing or equity funding to commence its operating plan. These conditions raise substantial doubt about the Company's ability to continue as a going concern. Further information and management's plans in regard to this uncertainty were also described in Note 2. The financial statements do not include any adjustments that might result from the outcome of this uncertainty.

Peter Messineo, CPA
Palm Harbor, Florida
November 17, 2011

Tivus, Inc.
(A Development Stage Enterprise)
Balance Sheets

	December 31, 2010	December 31, 2009
ASSETS		
Cash and cash equivalents	$ 14,969	$ 1,991
Total current assets	14,969	1,991
Capitalized network operations center costs	62,000	-
Hotel installations in progress	552,323	-
Total non-current assets	614,323	-
TOTAL ASSETS	**$ 629,292**	**$ 1,991**
LIABILITIES AND STOCKHOLDERS' DEFICIT		
Accounts payable and accrued expenses	$ 587,126	$ 137,500
Related party accounts payable	-	226,601
Convertible notes and accrued interest payable, net of discounts of $291,018 and $91,479, respectively	468,894	238,357
Derivative liabilities	1,430,981	420,583
Total current liabilities	2,487,001	1,023,041
TOTAL LIABILITIES	**2,487,001**	**1,023,041**
SHAREHOLDER DEFICIT		
Preferred stock, par value $0.001, 1 million authorized, -0- and -0- issued and outstanding at December 31, 2010 and 2009, respectively	-	-
Common stock, par value $0.001, 300 million authorized, 37,083,681 and 850,420 issued and outstanding at December 31, 2010 and 2009, respectively	37,084	850
Additional paid in capital	5,064,082	3,335,564
Accumulated deficit during development stage	(6,958,875)	(4,357,464)
TOTAL SHAREHOLDERS' DEFICIT	(1,857,709)	(1,021,050)
TOTAL LIABILITIES AND SHAREHOLDERS' DEFICIT	**$ 629,292**	**$ 1,991**

The accompanying notes form an integral part of these financial statements.

Tivus, Inc.
(A Development Stage Enterprise)
Statements of Operations

	Year Ended December 31, 2010	2009	July 22, 2008 (inception) through December 31, 2010
REVENUES			
Revenues	$ -	$ -	$ -
Total Revenues	-	-	-
OPERATING EXPENSES			
General and administrative	1,400,705	199,908	5,326,504
Total operating expenses	1,400,705	199,908	5,326,504
OTHER INCOME (EXPENSE)			
Gain (loss) on derivative valuations	(466,473)	(134,290)	(692,396)
Loss on retirement of debt	(333,000)	-	(333,000)
Interest expense	(401,233)	(38,358)	(606,975)
Net loss	**$ (2,601,411)**	**$ (372,556)**	**$ (6,958,875)**
Weighted average number of shares outstanding - basic and fully diluted	16,237,908	4,970,739	
Net loss per share	$ (0.16)	$ (0.07)	

The accompanying notes form an integral part of these financial statements.

Tivus, Inc.
(A Development Stage Enterprise)
Statement of Shareholders' Deficit

	Date	Common Stock Shares	Common Stock Amount	Additional Paid In Capital	Accumulated Deficit During Development Stage	Total Shareholders' Deficit
Balances at inception, July 22, 2008		140	$ -	$ -	$ -	$ -
Founders' shares	09/04/08	267	-	-		-
	09/05/08	282,000	282	(282)		-
Shares issued for services	08/26/08	13	-	80		80
	09/05/08	551,333	551	3,310,759		3,311,310
Net loss				-	(3,984,908)	(3,984,908)
Balances, December 31, 2008		833,753	833	3,310,557	(3,984,908)	(673,518)
Shares issued for services	03/04/09	16,667	17	25,007		25,024
Net loss					(372,556)	(372,555)
Balances, December 31, 2009		850,420	$ 850	$ 3,335,564	$ (4,357,464)	$ (1,021,049)

The accompanying notes form an integral part of these financial statements.

Tivus, Inc.
(A Development Stage Enterprise)
Statement of Shareholders' Deficit
(Continued)

		Common Stock								
	Date	**Shares**		**Amount**		**Additional Paid In Capital**		**Accumulated Development Stage Losses**		**Total Shareholders' Deficit**
Founders' shares	04/13/10	12,000,000	$	12,000	$	948,000	$		$	960,000
Shares issued for retirement of debt	05/06/10	4,400,000		4,400		303,600				308,000
	09/30/10	1,000,000		1,000		139,000				140,000
	10/01/10	4,000,000		4,000		28,000				32,000
	10/12/10	4,000,000		4,000		28,000				32,000
	11/30/10	2,500,000		2,500		17,500				20,000
Shares issued for cash	10/06/10	1,000,000		1,000		49,000				50,000
	11/01/10	2,000,000		2,000		98,000				100,000
	12/03/10	3,333,261		3,333		96,667				100,000
Conversion of convertible debt	08/19/10	2,000,000		2,001		20,751				22,752
Net loss								(2,601,411)		(2,601,411)
Balances, December 31, 2010		37,083,681	$	37,084	$	5,064,082	$	(6,958,875)	$	(1,857,709)

The accompanying notes form an integral part of these financial statements.

Tivus, Inc.
(A Development Stage Enterprise)
Statements of Cash Flows

	Year Ended December 31, 2010	Year Ended December 31, 2009	July 22, 2008 (inception) through December 31, 2010
OPERATING ACTIVITIES:			
Net loss	$ (2,601,411)	$ (372,556)	$ (6,958,875)
Adjustments to reconcile net loss to cash flows from operations:			
Amortization of discounts on notes payable	343,761	35,796	379,557
Gain / loss on revaluation of derivative liabilities	467,098	134,290	760,406
Loss on settlement of debt with common stock	417,000	-	417,000
Stock-based compensation	960,000	25,024	4,296,414
Operating assets and liabilities:			
Interest payable	24,528	2,561	127,089
Accounts payable and accrued expenses	449,626	-	449,626
Related-party accounts payable	(226,601)	69,601	-
Cash used in operating activities	(165,999)	(105,284)	(528,783)
INVESTING ACTIVITIES:			
Purchases of property, plant and equipment	(614,323)	-	(614,323)
Cash used in investing activities	(614,323)	-	(614,323)
FINANCING ACTIVITIES:			
Proceeds from issuance of notes payable	543,300	107,275	975,575
Principal payments on notes payable	-	-	(67,500)
Proceeds from issuance of common stock	250,000	-	250,000
Cash provided by financing activities	793,300	107,275	1,158,075
Net increase (decrease) in cash during the period	12,978	1,991	14,969
Cash at beginning of period	1,991	-	-
Cash at end of period	$ 14,969	$ 1,991	$ 14,969
SUPPLEMENTAL CASH FLOW DISCLOSURES:			
Cash paid for interest	$ -	$ -	$ -
Cash paid for income taxes	$ -	$ -	$ -
Purchases of property, plant and equipment with notes payable	$ 62,000	$ -	$ 62,000
Principal and interest converted to equity from notes payable	$ 22,752	$ -	$ 22,752

The accompanying notes form an integral part of these financial statements.

Tivus, Inc.
(A Development Stage Enterprise)
Notes to Financial Statements

Note 1. Organization, Business and Summary of Significant Accounting Policies

History

Tivus, Inc., a Delaware corporation (the "Company") was originally incorporated on February 4, 1992 in Delaware under the name Pacesetter Ostrich Farm, Inc. In February 2000, the Company changed its name to Prime Link Systems, Inc. ("Prime Link"), with the primary purpose of delivering high quality secure wireless fidelity internet access to the hospitality industry (hotels and motels).

On July 22, 2008, the Company entered into a definitive agreement whereby MaxWiFi, Inc. ("MaxWiFi") would acquire a controlling interest in the Company in return for cash and a promissory note. Upon executing this agreement, the Company undertook a 250:1 reverse stock split and issued 20 million (post-reverse) shares to MaxWiFi Communications, Inc., effecting what is commonly known as a "reverse merger". In connection with the reverse merger, the Company's name was changed to MaxWiFi Communications, Inc.

MaxWifi defaulted on the promissory note during January 2009. As such the former owners foreclosed on the shares owned by MaxWiFi during which time MaxWiFi was unable to exercise voting control over the shares.

In July 2009, Tivus, Inc. was incorporated in the State of Nebraska. On August 31, 2009, Tivus merged with MaxWiFi Communications, Inc. In connection with this reverse merger, the Company changed its name to its present name, Tivus, Inc.

Nature of Operations

Tivus, Inc. is an entertainment technology services company offering ad-supported, revenue sharing IPTV and wireless internet solutions to the hotel/hospitality industry; IP-based networks, onsite hardware & software, and/or a centralized network operations center (NOC) deliver programming and targeted advertising through proprietary hardware and software feed by satellite and/or fiber connections.

TIVUS® IPTV unique advertising revenue-sharing concept provides ultra-modern, high-definition (HD) flat-screen televisions at no capital expenditure to the hotel (hotels can also use or purchase their own TVs), and return a net-positive share of the advertising revenue back to the hotel. For the first time in the industry, the hotel's entertainment system becomes a significant new revenue source, instead of a large, but necessary, liability.

Tivus protects, maintains, and anonymously remembers each guest's unique settings and preferences and are securely available at any hotel property in the world with Tivus IPTV. Running on an integrated network, Tivus delivers guest services such as shuttle scheduling, valet, bellman, housekeeping, room service, messaging, folio review, express checkout, energy management, and many other personalized services. Guests enjoy HD services such as Free-to-Guest, premium Pay-per-Use, & Video-On-Demand

Programming, a secure, high-speed, TV-based broadband internet browser, wireless internet access, gaming, and many other interactive services.

On September 15, 2010, we entered into our first agreement to provide our product and service to Westboy, LLC which owns the Doubletree Hotel & Executive Meeting Center which is located at 1616 Dodge Street, Omaha, NE (see Note 7).

Development Stage

The Company has not earned revenue from planned principal operations since inception (July 22, 2008). Accordingly, the Company's activities have been accounted for as those of a "Development Stage Enterprise" as provided for in guidance governing Development Stage Enterprises (“ASC 915”). Among the disclosures required by the guidance in ASC 915 are that the Company's financial statements be identified as those of a development stage company, and that the statements of operations, stockholders' equity (deficit) and cash flows disclose activity since the date of the Company's inception.

Basis of Presentation and Summary of Significant Accounting Policies

In the opinion of management, the accompanying financial statements includes all adjustments (which include only normal recurring adjustments) necessary to present fairly the financial position, results of operations, and cash flows for the years ended December 31, 2010 and 2009. Preparing financial statements requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenue, and expenses. Interim results are not necessarily indicative of results for a full year.

Management further acknowledges that it is solely responsible for adopting sound accounting practices, establishing and maintaining a system of internal accounting control and preventing and detecting fraud. The Company's system of internal accounting control is designed to assure, among other items, that 1) recorded transactions are valid; 2) valid transactions are recorded; and 3) transactions are recorded in the proper period in a timely manner to produce financial statements which present fairly the financial condition, results of operations and cash flows of the Company for the respective periods being presented.

Use of Estimates. The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statement and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from the estimates.

Cash and Cash Equivalents: For financial statement presentation purposes, the Company considers those short-term, highly liquid investments with original maturities of three months or less to be cash or cash equivalents. As of December 31, 2010, there were no cash equivalents.

Property and Equipment: New property and equipment are recorded at cost. Depreciation is computed once the asset is placed in service and is calculated using the straight-line method over the estimated useful lives of the assets, generally 5 years. Expenditures for renewals and betterments are capitalized. Expenditures for minor items, repairs and maintenance are charged to operations as incurred. Gain or loss upon sale or retirement due to obsolescence is reflected in the operating results in the period the event takes place. Neither our investment in our Network Operations Center, nor our hotel installations have been put into services as of December 31, 2010. We have therefore taken no depreciation as of that point.

Intangible Assets and Impairments: The Company amortizes intangible assets over their estimated useful lives unless such lives are deemed indefinite. Amortizable intangible assets are tested for impairment based on undiscounted cash flows, and, if impaired, written down to fair value based on either discounted cash flows or appraised values. Intangible assets with indefinite lives are tested annually for impairment and written down to fair value as required. No impairment of intangible assets has been recorded during any of the periods presented.

Revenue Recognition: The Company recognizes revenue when persuasive evidence of an agreement exists, services have been rendered, the sales price of a unit is fixed or determinable, and collectability is reasonably assured. Since our inception on July 22, 2008, the Company has had no revenues.

Valuation of Long-Lived Assets: We review the recoverability of our long-lived assets including equipment, goodwill and other intangible assets, when events or changes in circumstances occur that indicate that the carrying value of the asset may not be recoverable. The assessment of possible impairment is based on our ability to recover the carrying value of the asset from the expected future pre-tax cash flows (undiscounted and without interest charges) of the related operations. If these cash flows are less than the carrying value of such asset, an impairment loss is recognized for the difference between estimated fair value and carrying value. Our primary measure of fair value is based on discounted cash flows. The measurement of impairment requires management to make estimates of these cash flows related to long-lived assets, as well as other fair value determinations.

Stock Based Compensation: Stock-based awards to non-employees are accounted for using the fair value method in accordance with the guidance provided by Account Standards Codification ("ASC") Topic No. 718 ("ASC 718"), dealing with compensation and stock-based compensation. This guidance requires that companies measure and recognize compensation expense at an amount equal to the fair value of share-based payments granted under compensation arrangements.

We adopted the guidance of ASC 718 using the "modified prospective" method, which results in no restatement of prior period amounts. Under this method, the provisions of ASC 718 apply to all awards granted or modified after the date of adoption. In addition, compensation expense must be recognized for any unvested stock option awards outstanding as of the date of adoption on a straight-line basis over the remaining vesting period. ASC 718 also requires the benefits of tax deductions in excess of recognized compensation expense to be reported in the Statement of Cash Flows as a financing cash inflow rather than an operating cash inflow. In addition, ASC 718 requires a modification to the Company's calculation of the dilutive effect of stock option awards on earnings per share. For companies that adopt ASC 718 using the "modified prospective" method, disclosure of pro forma information for periods prior to adoption must continue to be made.

Accounting for Obligations and Instruments Potentially to Be Settled in the Company's Own Stock: We account for obligations and instruments potentially to be settled in the Company's stock in accordance with the guidance provided by ASC Topic 815 ("ASC 815"), which addresses derivatives and hedging. This issue addresses the initial balance sheet classification and measurement of contracts that are indexed to, and potentially settled in, the Company's own stock.

Fair Value of Financial Instruments: ASC 825 – Financial Instruments requires disclosure of fair value information about financial instruments. Fair value estimates discussed herein are based upon certain market assumptions and pertinent information available to management as of December 31, 2010. The respective carrying value of certain on-balance sheet financial instruments approximated their fair values.

These financial instruments include cash and cash equivalents, accounts payable and accrued expenses, promissory notes principal and interest payable, and certain derivative liabilities resulting from these promissory notes payable (see Note for a discussion of the derivative liabilities) .

Earnings per Common Share: Basic net loss per share is computed using the weighted average number of common shares outstanding during the period. Diluted net loss per common share is computed using the weighted average number of common and dilutive equivalent shares outstanding during the period. Dilutive common equivalent shares consist of options to purchase common stock (only if those options are exercisable and at prices below the average share price for the period) and shares issuable upon the conversion of our Preferred Stock. Due to the net losses reported, dilutive common equivalent shares were excluded from the computation of diluted loss per share, as inclusion would be anti-dilutive for the periods presented.

Income Taxes: We must make certain estimates and judgments in determining income tax expense for financial statement purposes. These estimates and judgments occur in the calculation of certain tax assets and liabilities, which arise from differences in the timing of recognition of revenue and expense for tax and financial statement purposes.

Deferred income taxes are recorded in accordance with the guidance found in ASC Topic 740 (“ASC 740”) addressing income taxes. Under this guidance, deferred tax assets and liabilities are determined based on the differences between financial reporting and the tax basis of assets and liabilities using the tax rates and laws in effect when the differences are expected to reverse.

ASC 740 provides for the recognition of deferred tax assets if realization of such assets is more likely than not to occur. Realization of our net deferred tax assets is dependent upon our generating sufficient taxable income in future years in appropriate tax jurisdictions to realize benefit from the reversal of temporary differences and from net operating loss, or NOL, carry-forwards. We have determined it more likely than not that these timing differences will not materialize and have provided a valuation allowance against substantially all of our net deferred tax asset. Management will continue to evaluate the realizability of the deferred tax asset and its related valuation allowance. If our assessment of the deferred tax assets or the corresponding valuation allowance were to change, we would record the related adjustment to income during the period in which we make the determination. Our tax rate may also vary based on our results and the mix of income or loss in domestic and foreign tax jurisdictions in which we operate.

In addition, the calculation of our tax liabilities involves dealing with uncertainties in the application of complex tax regulations. We recognize liabilities for anticipated tax audit issues in the U.S. and other tax jurisdictions based on our estimate of whether, and to the extent to which, additional taxes will be due. If we ultimately determine that payment of these amounts is unnecessary, we will reverse the liability and recognize a tax benefit during the period in which we determine that the liability is no longer necessary.

We will record an additional charge in our provision for taxes in the period in which we determine that the recorded tax liability is less than we expect the ultimate assessment to be.

ASC 740 requires recognition of estimated income taxes payable or refundable on income tax returns for the current year and for the estimated future tax effect attributable to temporary differences and carry-forwards. Measurement of deferred income tax is based on enacted tax laws including tax rates, with the measurement of deferred income tax assets being reduced by available tax benefits not expected to be realized.

Recent Accounting Pronouncements

In May 2011, the FASB issued ASU No. 2011-04, "Fair Value Measurement (Topic 820): Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and IFRSs", which is intended to improve comparability of fair value measurements presented and disclosed in financial statements prepared in accordance with U.S. generally accepted accounting principles and International Financial Reporting Standards. This standard clarifies the application of existing fair value measurement requirements including (1) the application of the highest and best use valuation premise, (2) the methodology to measure the fair value of an instrument classified in a reporting entity's shareholders' equity, (3) disclosure requirements for quantitative information on Level 3 fair value measurements and (4) guidance on measuring the fair value of financial instruments managed within a portfolio. In addition, the standard requires additional disclosures of the sensitivity of fair value to changes in unobservable inputs for Level 3 securities. This standard is effective for interim and annual reporting periods ending on or after December 15, 2011. The adoption of this guidance is not expected to have a significant impact on the Company's financial statements.

In June 2011, the FASB issued ASU No. 2011-05, "Presentation of Comprehensive Income", which requires that comprehensive income be presented either in a single continuous statement of comprehensive income or in two separate but consecutive statements. The standard also requires entities to disclose on the face of the financial statements reclassification adjustments for items that are reclassified from other comprehensive income to net earnings. This standard no longer allows companies to present components of other comprehensive income only in the statement of equity. This standard is effective for interim and annual reporting periods beginning after December 15, 2011. The adoption of this guidance is not expected to have a significant impact on the Company's financial statements other than the prescribed change in presentation.

Except for rules and interpretive releases of the SEC under authority of federal securities laws and a limited number of grandfathered standards, the FASB Accounting Standards Codification™ ("ASC") is the sole source of authoritative GAAP literature recognized by the FASB and applicable to the Company. Management has reviewed the aforementioned rules and releases and believes any effect will not have a material impact on the Company's present or future financial statements.

Note 2. Going Concern

The accompanying financial statements have been prepared assuming that Tivus, Inc. will continue as a going concern. As shown in the accompanying financial statements, we have not emerged from the development stage, we have a history of recurring losses since inception resulting in an accumulated deficit of $6,658,875, had negative cash flows from operations of $528,723 during the period from inception (July 22, 2008) to December 31, 2010, and a working capital deficit of $2,472,032 at December 31, 2010. These conditions raise substantial doubt as to our ability to continue as a going concern.

The Company's continuation as a going concern is dependent upon its ability to generate sufficient cash flow to meet its obligations on a timely basis and ultimately to attain profitability. The Company plans to generate the necessary cash flows with commencement of revenues through contracts over the next 12 – 18 months. However, should the Company's sales not provide sufficient cash flow; the Company has plans to raise additional working capital through debt and/or equity financings. There is no assurance the Company will be successful in producing sufficient revenues or obtaining additional funding through debt and equity financings.

The financial statements do not include any adjustments that might be necessary if we are unable to continue as a going concern.

Note 3. Capital Structure

Common Stock

On October 5, 2010, the State of Delaware authorized our reduction in the number of authorized shares from 2 billion to 300 million.

During 2009, we issued 16,667 shares to a consultant for services. We valued the shares at the closing price on the grant date ($1.50) and charged General and Administrative expenses with $25,024.

During the year ended December 31, 2010, we issued the following shares:

- We issued 12 million shares to our current Board Chairman and Chief Executive Officer, Shiva Prakash, to effect control of the Company after the American Arbitration Association settlement in January, 2010. Shares were valued at the closing price at the date of issuance, charging general and administrative expense in the amount of $960,000.
- We issued 5,400,000 shares of common stock in partial settlement of a promissory note from September, 2008. We valued the shares at the closing price on the date of the agreement ($448,000 in the aggregate), retired debts in the amount of $115,000, and recorded a loss on retirement of debt in the amount of $333,000.
- We issued 2 million shares upon conversion of two promissory notes and their accrued interest. We valued the shares at the agreed-upon conversion price, which approximated market value at the time of the agreement, and retired interest and principal of $22,752.
- We issued 10,500,000 of common stock in partial settlement of a promissory note from July, 2008. We valued these shares at the price agreed upon by the Company and the promissory note holder $0.02 per share ($84,000 in the aggregate) and retired $84,000 of outstanding unpaid principal.
- We issued 6,333,261 common shares to accredited investors for cash in the amount of $250,000.

At December 31 30, 2010, we had 37,083,681 common shares issued and outstanding.

Potential Dilution

As is discussed in Note 4, the Company has financed virtually all of its operations by issuing promissory notes with beneficial conversion features and warrants attached. Most of the promissory notes contain provisions that will convert at a discount to a three-day average bid price on the date of conversion. Therefore, the number of shares that would be issuable upon conversion of the promissory to common stock is not calculable until the conversion occurs, giving rise to derivative liabilities which are discussed in Note 4. Most of the promissory notes contain a 50% discount to the three-day average bid price, but the discounts vary between of 40% and 70%. Moreover, the promissory notes contain warrants attached which convert at a price equal to 150% of the price attained upon conversion.

The promissory notes, if converted and all warrants exercised would result in additional shares issues and dilution of existing shareholders at April 11, 2011[1] of 23.6 million shares and 72%[2] at a share price of $0.10; 47.3 million shares and 57% at share price of $0.05 and 236.4 million shares and 21% at a share price of $0.01.

Based on the number of shares outstanding at April 1, 2011 (61,712,644), if the price of our stock were to fall lower that approximately $0.01 per share, the number of shares we would be required to issue would be greater than our authorized shares. If that were to occur we would have to either increase the number of authorized shares, or satisfy our obligation by purchasing shares in excess of our authorized amount in the open market.

<u>Preferred Stock</u>

The Company is authorized to issue up to 1 million shares of preferred stock. There were no preferred shares issued or outstanding from inception to December 31, 2010.

Note 4. Convertible Notes

From inception to December 31, 2010, the Company has financed virtually all of its operations through the issuance of convertible promissory notes with warrants attached. Most of the notes are convertible using a formula equal to a discount to a three-day average bid price on the date of conversion. Most of the promissory notes also contain attached warrants which can be exercised at a price equal to 150% of the conversion price. Therefore, the warrants are not exercisable until the promissory note is converted to common stock.

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[1] At April 11, 2011, there were 61,712,644 shares issued and outstanding.
[2] 23,640,000 +61,712,644 = 85,352,644. 61,712,644 / 85,352,644 =722%

Most promissory notes contain beneficial conversion features and warrants like the example below:

Nominal amount:	$5,000
Nominal interest rate:	6%
Beneficial conversion feature	Convertible at 50% discount to the three-day average bid price.
Warrants:	2-year option to purchase an equal number of shares as was obtained through conversion at a price equal to 150% of the price attained upon conversion of the promissory note to common stock.

In the above example, assuming a three-day average bid price of $0.05, the promissory note could be converted, at the holder's option, into 200,000 shares of common stock (average bid price of $0.05 times 50% = $0.025, $5,000 / $0.025 = 200,000 shares).

In addition, once the note is converted, the warrants may be exercised at 150% of the price obtained upon conversion. Therefore, an additional 200,000 shares would be issuable upon exercise (price obtained on conversion = $0.025 x 150% = $0.0375. 200,000 shares could be exercised at $0.0375, upon exercise and payment by the holder of $7,500 in cash (200,000 shares x $0.0375.

The following table shows aggregate promissory note nominal amounts, accrued interest, discounts and derivative liabilities at December 31, 2009 and 2010).

	December 31, 2010	December 31, 2009
Note nominal amount	$ 650,575	$ 227,275
Accrued interest payable	109,337	102,561
Unamortized discount	(291,018)	(91,479)
Net note principal and interest	468,894	238,357
Derivative liabilities	1,430,981	420,583
Total promissory note liabilities	$ 1,899,875	$ 1,261,398

Derivative Liabilities

Embedded Derivative - Overview

Financial instruments often contain certain features which are considered derivative instruments that may require fair value accounting under Accounting Standards Codification ("ASC") 815 *Derivatives and Hedging* (pre-Codification FAS 133). The Master Glossary of the ASC defines an embedded derivative as "implicit or explicit terms that affect some or all of the cash flows or the value of other exchanges required by a contract in a manner similar to a derivative instrument" - these derivatives embedded in financing agreements may require asset or liability classification as a compound derivative.

An embedded derivative is a provision in a contract that modifies the cash flow of a contract by making it dependent on some underlying measurement. Like traditional derivatives, embedded derivatives can be based on a variety of instruments, from common stock to exchange rates and interest rates. Combining derivatives with traditional contracts or embedding derivatives changes the way that risk is distributed among the parties to the contracts.

A derivative is any financial instrument whose value depends on an underlying asset, price or index. An embedded derivative is the same as a traditional derivative; its placement, however, is different. Traditional derivatives stand alone and are traded independently. Embedded derivatives are incorporated into a contract, called the host contract. Together, the host contract and the embedded derivative form an entity known as a hybrid instrument.

The embedded derivative modifies the host contract by changing the cash flow that would otherwise be promised by the contract. For example, when you take out a loan, you agree to repay the funds plus interest. When you enter this contract, the lender worries that interest rates will go up, but your rate will be locked in at a lower rate. He can modify the loan agreement by embedding a derivative, so that interest payments depend on another measurement. They could, for example, be adjusted according to a benchmark interest rate or a stock index.

Embedded derivatives are found in many types of contracts. They are frequently used in leases and insurance contracts. Preferred stock and convertible bonds, or bonds which can be exchanged for stock, also host embedded derivatives. The specific accounting principles for embedded derivatives are complicated, but the basic concepts are that the embedded derivative must be accounted at fair value and that it should only be accounted separately from the host contract if it could stand alone as a traditional derivative.

A contract with an embedded derivative can substitute for another type of risk management; for example, some companies conduct business in more than one currency. By paying production costs in one currency and selling the product in another, they bear the risk of adverse fluctuations in the interest rate. Often, these companies participate in foreign exchange futures trading to hedge the risk they face. Another option is to embed the foreign exchange future into the sales contract. This differs from the original strategy in that the buyer now faces the risk, where a third party traded stand-alone futures with the corporation.

Tivus Convertible Debentures / Warrants

In 2008 and through the year ended December 31, 2010 (the “Dates of Issuance”), Tivus, Inc. issued multiple secured convertible notes (the “Secured Convertible Notes” or the “Notes”) and warrants (“Warrants”) with derivative liabilities to related and unrelated parties (the “Holders”), in the total Note amounts of $734,600 and Warrant options at conversion of the Notes to purchase shares of Common Stock. Some of those notes have been converted to common stock as of December 31, 2010. Our unpaid principal balance on these notes at December 31, 2010 is $650,575.

The Secured Convertible Notes have maturity dates 12 months and have an annual interest rates ranging from 6% to 8% per annum. The Holders have the right from and after the Date of Issuance, and until any time until the Secured Convertible Notes are fully paid, to convert any outstanding and unpaid principal portion of the Secured Convertible Notes, and accrued interest, into fully paid and non-assessable shares of Common Stock with an ownership limit of 4.99%. The Secured Convertible Notes have a variable conversion price and no reset feature. The percentage of market conversion rate is 20%, 40%, 50% or

70% of the average bid price of the Company’s common stock on 3 consecutive trading days immediately preceding the date of conversion. The Holders were not issued warrants with the Secured Convertible Notes. The Company shall issue to the Holder Warrants to purchase Common Stock equal to 100% of the Notes common shares converted into by Holder. The Warrants shall have a life of 2 years and have an exercise price equal to 150% of the conversion price. The embedded conversion feature in the Note should be accounted for as a derivative liability due to the full reset provision based on guidance in Accounting Standards Codification (“ASC”) 815 *Derivatives and Hedging* (pre-Codification “FAS 133”).

In the event of default for the Notes, the amount of principal and interest not paid when due bear interest at the rate of 12% per annum and the notes become immediately due and payable. Should that occur, the Company is liable to pay 100% of the then outstanding principal and interest.

The convertible debenture can be converted into common stock at conversions price that are a percentage of the market price; therefore the number of shares that could be required to be delivered upon "net-share settlement" is essentially indeterminate. In accordance with FAS No. 133, we have bi-furcated the beneficial conversion features embedded in the convertible debentures and have recorded the fair value of these beneficial conversion features as a current liability.

The promissory notes generally have derivative liabilities exceeding their nominal amounts as issuance. We have accounted for the initial value of the derivative at issuance as a discount on the nominal value of the promissory note, amortizing the discount to interest expense according to the Effective Interest Method.

Valuations at balance sheet dates subsequent to the promissory notes’ issuances are recorded as a gain or loss on derivative valuations.

As of December 31, 2010, we are in default on 9 of the promissory notes with an aggregate nominal amount of $107,275 and unpaid interest of $8,062.

Note 5. Property, Plant and Equipment

Development of our Network Operations Center

During the year ended December 31, 2010, we issued notes payable in the amount of $62,000 to a software development firm to develop guest user interfaces, business intelligence for our IPTV network, hotel customization and interactivity and PMS interfaces.

As these software platforms are intended to support our in-room IPTV operations, we have accounted for these costs as property, plant and equipment. We will begin depreciating these costs when our first hotel installation is complete.

Hotel Installations

As of December 31, 2010, we had incurred Hotel installation costs of $552,323 on projects in progress. As of December 31, 2010, we had installed approximately 25 rooms in the Philadelphia Downtown Marriot. By April 30, 2011, that number has increased to about 900 (or 60% completion).

Note 6. Accounts Payable and Accrued Expenses

Accounts payable and accrued expenses consists principally of liabilities resulting from our merger in 2008 ($169,810) and amounts owed for costs incurred in our hotel installations ($495,316) associated with our installation at the Philadelphia Downtown Marriot.

Note 7. Contract with Westboy, LLC

On September 15, 2010, we entered into a five-year agreement with Westboy, LLC who owns the Doubletree Hotel and Executive Meeting Center in Omaha, Nebraska ("the Hotel") to install and provide up to 450 IPTVs and content for a total monthly charge of approximately $20,500.

Additionally, the Hotel agrees to pay Tivus 85% of the revenues received by the Hotel for VOD/IPTV services at the Hotel. Additionally, Tivus agrees to pay to the Hotel 30% of any advertising sold by Tivus or its agents.

Tivus has guaranteed that the Hotel will earn at least $11,043 per month 60 days after they system is fully operational.

Note 8. Subsequent Events

Additional Dilutive Securities Issued

In January and February, 2011, the Company issued an additional nine promissory notes.

Three of these notes are issued essentially under the same terms as is quoted in Note 4, for $27,500 in cash. The notes are convertible at 50% of a five-day average bid price and contain warrants to purchase the same number of shares are convertible at a price equal to 150% of the conversion price. They pay interest at 6%, with a default rate of 12%. The maturity dates on these notes is one year from issuance.

We issued four promissory notes with interest at 12%. These notes mature in one year, and are convertible at prices ranging from $0.0365 to $0.05.

We issued two promissory notes with interest at 12%, payable in one year. They are convertible at a 45% discount to market or $0.015, whichever is lower.

Additional Shares of Common Stock Issued

Between January 1, 2011 and April 11, 2011, we issued an additional 24,628,963 shares for cash, services and debt reduction. At April 11, 2011, we had 61,712,644 shares issued and outstanding.

We have evaluated events and transactions that occurred subsequent to December 31, 2011 through the date the financial statements were available to be issued, November 17, 2011, for potential recognition or disclosure in the accompanying financial statements. Other than the disclosures above, we did not identify any events or transactions that should be recognized or disclosed in the accompanying financial statements.